

HARBOR BEACH COMMUNITY SCHOOLS

Harbor Beach, Michigan

REPORT ON FINANCIAL STATEMENTS

(with additional information)

June 30, 2008

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**Harbor Beach Community Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2008**

Harbor Beach School District, a K-12 school district located in Huron County, Michigan has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Harbor Beach School District administration's discussion and analysis of the financial results for the fiscal years ended June 30, 2008 and June 30, 2007.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

Fund Financial Statements

For the most part, the fund financial statements are comparable to financial statements prepared prior to GASB 34. The primary difference is that the Account Groups (General Fixed Assets and General Long-term Debt) are no longer reported. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". In the State of Michigan, school district's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue Funds, Debt Service Funds, and Capital Projects Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements are required by GASB 34. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. All of the District's assets and liabilities, both short and long-term, are reported. As such, these statements included capital assets, net of related depreciation, as well as the bonded debt of the District.

**Harbor Beach Community Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2008**

Summary of Net Assets

The following schedule summarizes the net assets at fiscal years ended:

Assets	June 30, 2007	June 30, 2008
Current assets	\$ 3,532,132	\$ 3,561,594
Deferred amount on bond refunding	479,524	454,286
Capital assets	19,333,183	19,429,706
Less: Accumulated depreciation	(3,234,768)	(3,706,413)
Non current assets	16,577,939	16,177,579
Total assets	<u>\$ 20,110,071</u>	<u>\$ 19,739,173</u>
Liabilities		
Current liabilities	\$ 1,067,087	\$ 924,838
Long-term liabilities	10,858,207	10,474,606
Total liabilities	11,925,294	11,399,444
Net Assets		
Invested in capital assets, net of related debt	4,875,208	4,865,086
Restricted for debt service	280,775	364,500
Unrestricted	3,028,794	3,110,143
Total net assets	<u>8,184,777</u>	<u>8,339,729</u>
Total liabilities and net assets	<u>\$ 20,110,071</u>	<u>\$ 19,739,173</u>

Analysis of Financial Position

During the fiscal year ended June 30, 2008, the District's net assets increased by \$154,952. A few of the more significant factors affecting net assets during the year are discussed below.

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

**Harbor Beach Community Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2008**

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal years ended June 30, 2008 and June 30, 2007, \$471,645, and \$482,287 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2008, \$96,523 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$375,122 for the fiscal year ended June 30, 2008.

Results of Operations

For the fiscal years ended June 30, 2008 and June 30, 2007, the results of operations, on a District-wide basis were:

	June 30, 2007	% of Total	June 30, 2008	% of Total
	Amount		Amount	
General Revenues				
Property Taxes	\$ 2,209,384	30.33%	\$ 2,365,574	33.06%
Investment earnings	63,232	0.87%	52,766	0.74%
State sources	3,882,071	53.30%	3,600,493	50.32%
Transfers from other districts	460,295	6.32%	509,673	7.12%
Other	62,079	0.85%	58,163	0.81%
Total general revenues	6,677,061	91.67%	6,586,669	92.05%
Program Revenues				
Charges for services	132,793	1.82%	132,002	1.84%
Operating grants	473,949	6.51%	436,932	6.11%
Total revenues	7,283,803	100.00%	7,155,603	100.00%
Expenses				
Instruction	3,647,699	50.52%	3,652,979	52.18%
Support services	2,133,730	29.55%	1,959,044	27.98%
Community services	-	0.00%	-	0.00%
Food services	283,157	3.92%	266,987	3.81%
Athletics	161,363	2.23%	153,313	2.19%
Interest on long-term debt	486,537	6.74%	471,445	6.73%
Unallocated depreciation expense	507,525	7.03%	496,883	7.10%
Total expenses	7,220,011	100.00%	7,000,651	100.00%
Increase (decrease) in net assets	\$ 63,792		\$ 154,952	

**Harbor Beach Community Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2008**

Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levies 18 mills of property taxes for operations on non-homestead properties, less the mandatory reductions required by the Headlee Amendment, Article IX, Section 3I. According to Michigan law, the taxable levy is based on the taxable valuation of properties.

The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2007-2008 fiscal year, the District levied \$1,454,748 in non-homestead property taxes. This represented an increase of 8.72% from the prior year. The amount of unpaid property taxes at June 30, 2008, less an estimate for those deemed to be uncollectible, was \$1,500.

The following table summarizes the non-homestead property tax levies for operations for the past five years:

Fiscal Year	Non-homestead Tax Levy	% Increase (Decrease) from Prior Year
2007-2008	\$ 1,454,748	8.72%
2006-2007	1,338,125	2.14%
2005-2006	1,310,047	2.27%
2004-2005	1,280,981	6.61%
2003-2004	1,201,543	3.05%

2. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 75% of the current year's fall count and 25% of the prior year's spring count. For the 2007-2008 fiscal year, the District received \$7,204 per student FTE, which was \$119 more than the base amount received for the 2006-2007 fiscal year.

**Harbor Beach Community Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2008**

3. Student Enrollment

The following schedule lists the actual FTE for the blended student enrollment for the past five fiscal years.

	Actual Blended Student FTE
2007-2008	664
2006-2007	699
2005-2006	725
2004-2005	772
2003-2004	778

4. Operating Grants

The District funds a significant portion of its operations with categorical sources. For the fiscal year ended June 30, 2008, federal, state, and other grants accounted for \$436,932. This represents an decrease over the total grant sources of \$473,949 received for the 2006-2007 fiscal year.

5. County Special Education Allocation

For the fiscal year ended June 30, 2008, the District received an allocation from the Huron Intermediate School District in the amount of \$394,211 to assist with the education of students with special needs. This amount represents an increase of \$66,925 over the prior fiscal year.

6. Interest Earnings

The District received interest on its investments in the amount of \$52,766 for the fiscal year ended June 30, 2008. Interest revenues decreased from the prior fiscal year by \$10,466 due to less cash to invest in the Capital Project Fund and the General Fund.

**Harbor Beach Community Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2008**

7. General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2007-2008 fiscal year, the District's board amended the general fund budget several times. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget, and actual totals from operations:

	Original Budget	Final Budget	Actual	Variance with Final Budget positive (negative)	% Variance
Total revenues	<u>\$5,379,096</u>	<u>\$5,907,608</u>	<u>\$5,924,521</u>	<u>\$16,913</u>	<u>.3%</u>
Expenditures					
Instruction	\$3,590,154	\$3,669,374	\$3,652,979	\$16,395	.45%
Supporting services	1,888,917	2,052,734	2,055,567	(2,833)	(.10%)
Total expenditures	<u>\$5,479,071</u>	<u>\$5,722,108</u>	<u>\$5,708,546</u>	<u>\$13,562</u>	<u>.20%</u>

The original revenue budget of \$5,379,096 was increased to \$5,907,608 primarily as a result of increased local revenues.

**Harbor Beach Community Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2008**

Capital Asset and Debt Administration

Capital Assets -

By the end of the 2007-2008 fiscal year, the District had invested \$19,429,706 in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents a net increase of \$96,523 over the prior fiscal year. Depreciation expense for the year amounted to \$471,645, bringing the accumulation to \$3,706,413 as of June 30, 2008.

Long-term Debt -

At June 30, 2008, the District had \$10,858,207 in bonded debt outstanding. This represents a decrease of \$365,000 over the amount outstanding at the close of the prior fiscal year.

Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future:

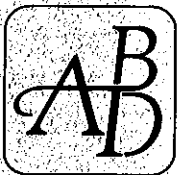
With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which districts will be funded for the student foundation allowance for the 2008-2009 fiscal year. The 2008-2009 foundation allowance has been projected to remain at the same level as the prior year.

As with other employers, the District continues to face an increase in rates paid for employee benefits, particularly for health insurance.

The State of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Educational Assessment Program) are compared from year to year, with the results being tabulated by school building and by district. With the changes to the federal Title I legislation resulting from the No Child Left Behind Act, adequate yearly progress of students will be more important as certain portions of funding are now tied to it.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact the Superintendent's Office, Harbor Beach Community School District, 402 South Fifth Street, Harbor Beach, Michigan 48441.



ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

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September 10, 2008

INDEPENDENT AUDITOR'S REPORT

Board of Education
Harbor Beach Community Schools
Harbor Beach, Michigan 48441

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harbor Beach Community Schools, as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the District's primary government as listed in the table of contents. These financial statements are the responsibility of Harbor Beach Community School's, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Harbor Beach Community Schools as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2008 on our consideration of Harbor Beach Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i through vii and page 23, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Board of Education
Harbor Beach Community Schools
September 10, 2008

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the primary government of Harbor Beach Community Schools' basic financial statements. The additional information on pages 24 to 46 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

BASIC FINANCIAL STATEMENTS

HARBOR BEACH COMMUNITY SCHOOLS
STATEMENT OF NET ASSETS
June 30, 2008

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
CURRENT ASSETS	
Cash and equivalents	\$ 917,668
Investments	1,932,539
Accounts receivable	-
Interest receivable	3,137
Prepaid expense	11,183
Due from other governmental units	695,567
Property taxes receivable	1,500
	<hr/>
TOTAL CURRENT ASSETS	3,561,594
	<hr/>
NONCURRENT ASSETS	
Deferred amount on bond refunding	454,286
Capital assets	19,429,706
Less accumulated depreciation & amortization	(3,706,413)
	<hr/>
TOTAL NONCURRENT ASSETS	16,177,579
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TOTAL ASSETS	<u>\$ 19,739,173</u>
	<hr/>
<u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES	
Accounts payable	\$ 107,968
Benefits payable	84,408
Accrued interest	78,596
Retirement payable	29,248
Salaries payable	227,869
Other accruals	13,148
Current portion of long term debt	383,601
	<hr/>
TOTAL CURRENT LIABILITIES	924,838
	<hr/>
NONCURRENT LIABILITIES	
Noncurrent portion of long term debt	10,474,606
	<hr/>
TOTAL LIABILITIES	11,399,444
	<hr/>
NET ASSETS	
Invested in capital assets, net of related debt	4,865,086
Restricted for debt service	364,500
Unrestricted	3,110,143
	<hr/>
TOTAL NET ASSETS	8,339,729
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,739,173</u>
	<hr/>

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 3,652,979		\$ 191,711	\$ (3,461,268)
Support services	1,959,044	\$ 26,256	82,162	(1,850,626)
Community services	-	-		-
Food services	266,987	80,324	163,059	(23,604)
Athletics	153,313	25,422		(127,891)
Interest on long-term debt	471,445		-	(471,445)
Unallocated depreciation & amortization	496,883			(496,883)
Total governmental activities	<u>\$ 7,000,651</u>	<u>\$ 132,002</u>	<u>\$ 436,932</u>	(6,431,717)
General revenues:				
Property taxes, levied for general purposes				1,454,748
Property taxes, levied for debt service				910,826
State sources				3,600,493
Investment revenue				52,766
Transfers from other districts				509,673
Miscellaneous				58,163
Total general revenue				<u>6,586,669</u>
Change in net assets				154,952
Net assets, beginning of year				<u>8,184,777</u>
Net assets, end of year				<u>\$ 8,339,729</u>

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	<u>GENERAL FUND</u>	<u>DEBT RETIREMENT</u>	<u>CAPITAL PROJECTS FUND</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>					
CURRENT ASSETS:					
Cash	\$ 330,147	\$ 443,096	\$ 15,616	\$ 128,809	\$ 917,668
Investments	1,275,041		657,498		1,932,539
Accounts receivable	-				-
Interest receivable			3,137		3,137
Prepaid expense	11,183				11,183
Due from other funds	15,576		-	36,002	51,578
Due from other governmental units	695,567			-	695,567
TOTAL ASSETS	<u>\$ 2,327,514</u>	<u>\$ 443,096</u>	<u>\$ 676,251</u>	<u>\$ 164,811</u>	<u>\$ 3,611,672</u>
<u>LIABILITIES AND FUND BALANCE</u>					
LIABILITIES:					
Accounts payable	\$ 107,292			\$ 676	\$ 107,968
Benefits payable	84,408				84,408
Deferred Revenue	-				-
Due to other funds	-			51,578	51,578
Retirement payable	29,248				29,248
Salaries payable	227,869			-	227,869
Other accruals	13,148			-	13,148
TOTAL LIABILITIES	<u>461,965</u>	<u>-</u>	<u>-</u>	<u>52,254</u>	<u>514,219</u>
FUND BALANCE:					
Reserved for debt service		\$ 443,096			443,096
Unreserved:					
Designated for special projects	138,715		\$ 676,251		814,966
Undesignated	1,726,834			112,557	1,839,391
TOTAL FUND BALANCE	<u>1,865,549</u>	<u>443,096</u>	<u>676,251</u>	<u>112,557</u>	<u>3,097,453</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,327,514</u>	<u>\$ 443,096</u>	<u>\$ 676,251</u>	<u>\$ 164,811</u>	<u>\$ 3,611,672</u>

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2008

Total Fund Balances - Governmental Funds	\$ 3,097,453
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Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds

The cost of the capital assets is:	19,429,706
Accumulated depreciation is:	(3,706,413)

Long term liabilities are not due and payable in the current
period and are not reported in the funds

Bonds payable:	(10,858,207)
Deferred amount on bond refunding	454,286
Accrued interest is not included as a liability in govern- mental funds; it is recorded when paid:	(78,596)

Balance of taxes receivable at 6/30/08 less allowance for doubtful
accounts

1,500

Net Assets of Governmental Activities

<u>\$ 8,339,729</u>

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
For the Year Ended June 30, 2008

	GENERAL FUND	DEBT RETIREMENT	CAPITAL PROJECTS FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Local sources	\$ 1,554,460	\$ 920,170	\$ 28,018	\$ 105,857	\$ 2,608,505
State sources	3,586,515	-		13,978	3,600,493
Federal sources	273,873			163,059	436,932
Transfers from other districts	509,673				509,673
TOTAL REVENUES	5,924,521	920,170	28,018	282,894	7,155,603
EXPENDITURES					
Instruction	3,652,979				3,652,979
Supporting services	2,055,567				2,055,567
Community services	-				-
Food services				266,987	266,987
Athletic services				153,313	153,313
Capital outlay			-	-	-
Debt service:					
Principal redemption		365,000		-	365,000
Interest and fiscal charges		473,677		-	473,677
TOTAL EXPENDITURES	5,708,546	838,677	-	420,300	6,967,523
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	215,975	81,493	28,018	(137,406)	188,080
OTHER FINANCING SOURCES (USES)					
Fund transfers in			-	185,500	185,500
Fund transfers out	(185,500)				(185,500)
TOTAL OTHER FINANCING SOURCES (USES)	(185,500)	-	-	185,500	-
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	30,475	81,493	28,018	48,094	188,080
FUND BALANCE AT BEGINNING OF YEAR	1,835,074	361,603	648,233	64,463	2,909,373
FUND BALANCE AT END OF YEAR	\$ 1,865,549	\$ 443,096	\$ 676,251	\$ 112,557	\$ 3,097,453

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
June 30, 2008

Total net change in fund balances--governmental funds	\$ 188,080
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation:

Depreciation expense	(471,645)
Capital outlay	96,523

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable at the beginning of the year	80,828
Accrued interest payable at the end of the year	(78,596)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	365,000
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The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortization in the statement of activities. The effect of these differences in the treatment of long-term debt and related items is as follows:

Amortization of deferred amount on bond refunding	(25,238)
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Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Accrued revenue at the beginning of the year	(1,500)
Accrued revenue at the end of the year	1,500

Change in net assets of governmental activities	<u>\$ 154,952</u>
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The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
STATEMENT OF NET ASSETS
June 30, 2008

	<u>AGENCY FUNDS</u>
CURRENT ASSETS	
Cash	\$ 99,259
<i>TOTAL ASSETS</i>	<u>\$ 99,259</u>
 LIABILITIES	
Due to student organizations	\$ 99,259
<i>TOTAL LIABILITIES</i>	<u>\$ 99,259</u>

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The basic financial statements of the Harbor Beach Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

REPORTING ENTITY:

The Harbor Beach Community Schools (the "District") is governed by the Harbor Beach Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14 and 39.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as general revenues.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. These functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits, and charges, etc.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function.

Operating grants include operating-specific and discretionary (either operating or capital) grants.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

GOVERNMENTAL FUNDS

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Capital Projects Fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994.

OTHER NON-MAJOR FUNDS

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION:

Accrual Method:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION, (Continued):

Modified Accrual Method:

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue:

The State of Michigan utilizes a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008 the foundation allowance was based on the pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes that may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2007 - August 2008. Thus, the unpaid portion at June 30th is reported as due from other governmental units. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received that are not expended by the close of the fiscal year are recorded as deferred revenue.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

ASSETS, LIABILITIES AND EQUITY:

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value and determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the districts intend to hold the investment until maturity.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Short-term Interfund Receivables/Payables.

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

3. Property Taxes.

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

The District along with certain other governmental units is permitted by the Constitution of the State of Michigan of 1963 to levy combined taxes up to \$50 per \$1,000 of assessed valuation for general governmental services other than the payment of Debt Service Fund expenses if approved by a majority of the electors. The District must include certain tax levies of other governmental units located within the District, primarily the county, when determining the maximum millage of \$50 per \$1,000 of assessed valuation. For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation:

<u>FUND</u>	<u>MILLS</u>
General Fund – Non Homestead	18.00
Debt Service Fund	3.95

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

ASSETS, LIABILITIES AND EQUITY, (Continued):

4. Capital Assets.

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 – 15 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000. Group purchases are evaluated on a case-by-case basis.

5. Compensated Absences.

Each teacher is accorded a maximum of 100 compensated sick leave days. These sick days must be used during the school year. Any unused number of days is paid out at \$40 per day, with a maximum of \$480 per year. This is paid prior to June 30, therefore, no liability is recorded for accumulated compensated absences.

6. Unemployment Insurance.

The District reimburses the Bureau of Worker's & Unemployment Compensation (BW & UC) for the actual amount of unemployment benefits disbursed by the BW & UC on behalf of the District. Billings received for amounts paid by the through June 30 are accrued, if material.

7. Long-term obligations.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Balance.

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets do not constitute "available spendable resources". The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements
For The Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

ASSETS, LIABILITIES AND EQUITY, (Continued):

9. Use of Estimates.

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2008

NOTE 2 - STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY:

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The District does not maintain a formalized encumbrance accounting system.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1st. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1st, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, the School Board must approve these transfers and any revisions that alter the total expenditures of any fund.
5. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue and debt service fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2008

NOTE 3 – DEPOSITS AND INVESTMENTS - CREDIT RISK:

As of June 30, 2008, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
MILAF External Investment pool -MIMAX	\$ 1,275,041	0.0027	AAAm	66.0%
MILAF External Investment pool -MICMS	224	0.0027	AAAm	0.0%
MILAF External Investment pool -Term	657,274	0.0027	AAAf	34.0%
Total fair value	<u>\$1,932,539</u>			100.0%
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2008, the fair value of the District's investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2008, \$1,316,021 of the District's bank balance of \$1,516,021 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2008

NOTE 3 – DEPOSITS AND INVESTMENTS - CREDIT RISK, (Continued):

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counter party, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of \$99,259	\$ 1,016,927
Investments	<u>1,932,539</u>
	<u>\$ 2,949,466</u>

The above amounts are reported in the financial statements as follows:

Cash - Agency Fund	\$ 99,259
Cash - District wide	917,668
Investments - District wide	<u>1,932,539</u>
	<u>\$ 2,949,466</u>

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2008

NOTE 4 - LONG-TERM DEBT:

During the fiscal year ending June 30, 2005, the district refinanced \$9,345,000 of the 2001 bonds. The refinancing is expected to save the district approximately \$352,055 over the next 22 years.

Following is a summary of the various long-term debt of the school district:

1998 Durant Bonds	\$38,207
2001 School Building and Site Bonds	1,065,000
2005 Refunding Bonds	9,755,000
Less: deferred amount on bond	(454,286)
Total long-term debt	<u>\$10,403,921</u>

DEBT SERVICE REQUIREMENTS:

The annual requirements to amortize long-term debt outstanding as of June 30, 2008 are as follows:

<u>YEAR ENDED JUNE 30,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2009	\$ 383,601	\$ 459,743	\$ 843,344
2010	398,773	444,091	842,864
2011	432,356	434,989	867,345
2012	434,140	409,639	843,779
2013	454,337	392,241	846,578
2014	470,000	374,035	844,035
2015	490,000	354,060	844,060
2016	510,000	334,460	844,460
2017	530,000	312,785	842,785
2018	555,000	290,260	845,260
2019	575,000	266,673	841,673
2020	600,000	242,235	842,235
2021	630,000	216,735	846,735
2022	655,000	189,960	844,960
2023	685,000	162,122	847,122
2024	715,000	133,010	848,010
2025	745,000	102,623	847,623
2026	780,000	70,587	850,587
2027	815,000	36,264	851,264
Total	10,858,207	5,226,512	16,084,719
Deferred amount on bond refunding	(454,286)	-	(454,286)
Total	<u>\$ 10,403,921</u>	<u>\$5,226,512</u>	<u>\$ 15,630,433</u>

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2008

NOTE 4 - LONG-TERM DEBT, (Continued):

An amount of \$443,096 is available in the debt service fund to service the general obligation debt.

CHANGES IN LONG-TERM DEBT:

Following is a summary of long-term debt transactions of the district for the year ended June 30, 2008:

	<u>GENERAL OBLIGATION</u>
Long-term debt - July 1, 2007	\$ 10,743,683
2001 School Bonds Paid	(325,000)
Durant Bonds Paid	-
2005 Refunding Bonds Paid	(40,000)
Amortization of deferred amount on bond	25,238
Total	<u><u>\$ 10,403,921</u></u>

Interest expense (all funds) for the year ended June 30, 2008 was \$471,445.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN:

Plan Description – The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan, 48909-7671 or by calling (800) 381-5111.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2008 was 17.74% through September 2007 and 16.72% for October 1, 2007 through June 30, 2008. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2008, 2007, and 2006, were \$500,309, \$527,130, and \$551,957, respectively, and were equal to the required contribution for each year.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2008

NOTE 5 - EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN, (Continued):

The District is not responsible for the payment of retirement benefits, which is the responsibility of the State of Michigan.

Other post-employment benefits – Also within the MPERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the MPERS with the balance deducted from the monthly pension.

NOTE 6 - RISK MANAGEMENT:

The District is exposed to risk of loss related to injuries to employees. The District participates in a pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays quarterly premiums to the pool for the insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance, torts, theft of, damage to and destruction of assets and errors & omissions.

NOTE 7 – INTERFUND RECEIVABLES AND PAYABLES:

Interfund receivable and payable balances at June 30, 2008 are as follows:

	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
General Fund	\$ 15,576	
Special Revenue Fund	<u>36,002</u>	<u>\$ 51,578</u>
Total	<u>\$ 51,578</u>	<u>\$ 51,578</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE 8 – DESIGNATED FUND BALANCE:

The fund balance in the General Fund has been designated by the School Board at June 30, 2008 for the following purposes:

Technology Fund	\$43,212
Revisions/Math	45,589
Curriculum Revisions/LA	<u>49,914</u>
Total	<u>\$138,715</u>

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2008

NOTE 9 – SECTION 125 CAFETERIA PLAN:

The School District established a Section 125 Cafeteria Plan through AFLAC Administrative Services. All employees who meet the plan criteria are eligible to participate beginning with the 2002-2003 school year.

NOTE 10 – TRANSFERS:

The general fund transferred \$139,500 to the athletic fund and \$46,000 to the food service fund during the current fiscal year. The transfers to the athletic fund and the food service fund were to subsidize operations.

NOTE 11 – CAPITAL ASSETS:

A summary of changes in the District's capital assets follows:

	BALANCE JULY 1, 2007	ADDITIONS	DELETIONS	BALANCE JUNE 30,
Assets not being depreciated - land	\$ 57,065			\$ 57,065
Other capital assets:				
Buildings and additions	17,709,421	\$ -		\$ 17,709,421
Technology	364,518	61,523		426,041
Athletic equipment	333,590	-		333,590
General equipment	392,853	-		392,853
Transportation equipment	475,736	35,000	\$ -	510,736
Subtotal	19,276,118	96,523	-	19,372,641
Total accumulated depreciation	(3,234,768)	(471,645)	-	(3,706,413)
Net other capital assets	16,041,350	(375,122)	-	15,666,228
Net capital assets	\$ 16,098,415	\$ (375,122)	\$ -	\$ 15,723,293

Depreciation expense was charged as unallocated to the governmental activities in the amount of \$471,645.

REQUIRED SUPPLEMENTARY INFORMATION

HARBOR BEACH COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2008

	BUDGET			VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES:				
Local sources	\$ 77,500	\$ 1,584,801	\$ 1,554,460	\$ (30,341)
State sources	4,825,315	3,572,297	3,586,515	14,218
Federal sources	241,348	235,936	273,873	37,937
Transfers from other districts	234,933	514,574	509,673	(4,901)
TOTAL REVENUES	5,379,096	5,907,608	5,924,521	16,913
EXPENDITURES:				
Instruction	3,590,154	3,669,374	3,652,979	16,395
Supporting services	1,888,917	2,052,734	2,055,567	(2,833)
Community services		-	-	-
TOTAL EXPENDITURES	5,479,071	5,722,108	5,708,546	13,562
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(99,975)	185,500	215,975	30,475
OTHER FINANCING SOURCES (USES):				
Transfer to Other Funds	(139,500)	(185,500)	(185,500)	-
TOTAL OTHER FINANCING SOURCES (USES)	(139,500)	(185,500)	(185,500)	-
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	(239,475)	-	30,475	30,475
FUND BALANCE - BEGINNING OF YEAR	1,835,074	1,835,074	1,835,074	-
FUND BALANCE - END OF YEAR	\$ 1,595,599	\$ 1,835,074	\$ 1,865,549	\$ 30,475

ADDITIONAL INFORMATION

HARBOR BEACH COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
June 30, 2008

	<u>GOVERNMENTAL FUND TYPES</u>	<u>TOTAL</u>
	<u>SPECIAL REVENUE</u>	<u>2008</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 128,809	\$ 128,809
Due from other governmental units	-	-
Due from other funds	<u>36,002</u>	<u>36,002</u>
TOTAL ASSETS	<u>\$ 164,811</u>	<u>\$ 164,811</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
LIABILITIES:		
Accounts payable	\$ 676	\$ 676
Salaries payable	-	-
Due to other funds	51,578	51,578
Accrued Liabilities	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>52,254</u>	<u>52,254</u>
 FUND BALANCE:		
Unreserved	<u>112,557</u>	<u>112,557</u>
TOTAL FUND BALANCE	<u>112,557</u>	<u>112,557</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 164,811</u>	<u>\$ 164,811</u>

HARBOR BEACH COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE -
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2008

	<u>GOVERNMENTAL FUND TYPES</u>	<u>TOTAL</u>
	<u>SPECIAL REVENUE</u>	<u>2008</u>
REVENUES:		
Local sources		
Admissions	\$ 25,422	\$ 25,422
Meals	72,093	72,093
A la carte	6,766	6,766
Vending machines	1,465	1,465
Interest	111	111
Miscellaneous	-	-
Total local sources	<u>105,857</u>	<u>105,857</u>
State sources		
State aid	<u>13,978</u>	<u>13,978</u>
Federal sources		
National School Lunch Program	144,022	144,022
USDA Commodities	<u>19,037</u>	<u>19,037</u>
Total federal sources	<u>163,059</u>	<u>163,059</u>
TOTAL REVENUES	<u>282,894</u>	<u>282,894</u>
EXPENDITURES:		
Food services	266,987	266,987
Athletics	153,313	153,313
Capital outlay		-
Debt retirement:		
Principal repayment		-
Interest and other fiscal charges		-
TOTAL EXPENDITURES	<u>420,300</u>	<u>420,300</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(137,406)</u>	<u>(137,406)</u>
OTHER FINANCING SOURCES (USES):		
Fund transfers in	<u>185,500</u>	<u>185,500</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>185,500</u>	<u>185,500</u>
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	<u>48,094</u>	<u>48,094</u>
FUND BALANCE - BEGINNING OF YEAR	<u>64,463</u>	<u>64,463</u>
FUND BALANCE - END OF YEAR	<u>\$ 112,557</u>	<u>\$ 112,557</u>

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2008

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
LOCAL SOURCES:			
Property taxes	\$ 1,454,745	\$ 1,454,748	\$ 3
Tuition - driver education	-	-	-
Transportation	26,256	26,256	-
Earnings on investments	40,723	43,311	2,588
Grants and donations	2,193	2,193	-
Other local revenues	60,884	27,952	(32,932)
Total Local Sources	<u>1,584,801</u>	<u>1,554,460</u>	<u>(30,341)</u>
STATE SOURCES:			
State aid	3,233,199	3,247,379	14,180
Durant settlement	6,471	6,471	-
Special education	146,016	146,030	14
Drivers education	-	-	-
Other state sources:			
At Risk	186,611	186,635	24
Other	-	-	-
Total State Sources	<u>3,572,297</u>	<u>3,586,515</u>	<u>14,218</u>
FEDERAL SOURCES:			
Title I	147,759	147,764	5
Title V	2,235	2,235	-
Title II	69,355	69,355	-
Transition	9,000	9,000	-
RUSDLT		32,932	32,932
Other	7,587	12,587	5,000
Total Federal Sources	<u>235,936</u>	<u>273,873</u>	<u>37,937</u>
OTHER TRANSACTIONS:			
Incoming Transfers:			
Tuition	31,000	31,000	-
Transportation	2,032	2,032	-
Special education	401,496	394,211	(7,285)
Vocational education	5,912	5,912	-
Gifted and talented	-	-	-
Medicaid services coordination	24,302	24,302	-
Other	49,832	52,216	2,384
Sale of assets	-	-	-
Total Other Transactions	<u>514,574</u>	<u>509,673</u>	<u>(4,901)</u>
TOTAL REVENUES AND OTHER TRANSACTIONS	<u>\$ 5,907,608</u>	<u>\$ 5,924,521</u>	<u>\$ 16,913</u>

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2008

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION:			
BASIC PROGRAMS:			
ELEMENTARY			
Professional Salaries	\$ 515,983	\$ 515,983	\$ -
Non-Professional Salaries	15,529	15,529	-
Insurance Benefits	96,883	96,883	-
Severance Pay	-	-	-
FICA	126,232	126,232	-
Purchased Services	40,888	40,576	312
Supplies	11,179	11,179	-
Capital Outlay	726	726	-
Total Elementary	<u>807,420</u>	<u>807,108</u>	<u>312</u>
MIDDLE SCHOOL			
Professional Salaries	359,013	359,013	-
Non-Professional Salaries	7,978	7,978	-
Insurance Benefits	95,668	95,668	-
Severance Pay	-	-	-
FICA	89,362	89,362	-
Purchased Services	30,237	30,237	-
Supplies	50,390	39,183	11,207
Capital Outlay	432	432	-
Miscellaneous Other Expenses	50	50	-
Total Middle School	<u>633,130</u>	<u>621,923</u>	<u>11,207</u>
SECONDARY			
Professional Salaries	591,096	591,095	1
Non-Professional Salaries	38,426	38,426	-
Insurance Benefits	189,828	189,828	-
Severance Pay	-	-	-
FICA	169,659	169,659	-
Purchased Services	188,346	184,206	4,140
Supplies	31,536	31,536	-
Capital Outlay	6,462	6,462	-
Miscellaneous Other Expenses	555	555	-
Total Secondary	<u>1,215,908</u>	<u>1,211,767</u>	<u>4,141</u>

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2008

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION, (Continued):			
BASIC PROGRAMS, (Continued):			
BASIC PROGRAMS/ ADDED NEEDS:			
Special Education:			
Professional Salaries	\$ 343,206	\$ 343,206	\$ -
Non-Professional Salaries	12,156	12,156	-
Insurance Benefits	64,243	64,243	-
FICA	84,834	84,834	-
Purchased Services	7,069	7,166	(97)
Supplies	5,290	5,290	-
At Risk			
Professional Salaries	138,536	138,536	-
Non-Professional Salaries	5,177	5,177	-
Insurance Benefits	28,952	27,841	1,111
FICA	33,995	33,995	-
Purchased Services	10,293	10,057	236
Supplies	-	-	-
Title I			
Professional Salaries	24,664	24,664	-
Non-Professional Salaries	73,006	73,006	-
Insurance Benefits	2,464	3,576	(1,112)
FICA	23,943	23,953	(10)
Purchased Services	-	-	-
Supplies	-	-	-
Vocational education			
Professional Salaries	46,452	46,452	-
Insurance Benefits	15,477	15,477	-
FICA	11,355	11,355	-
Purchased Services	958	958	-
Supplies	3,493	2,886	607
Title VI			
Supplies	2,583	2,583	-
Tech Literacy			
Professional Salaries	280	280	-
Non-Professional Salaries	-	-	-
FICA	68	68	-
Supplies	912	912	-
Purchased Services	-	-	-
Capital Outlay	-	-	-
Gifted and Talented			
Supplies	-	-	-

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2008

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION, (Continued):			
BASIC PROGRAMS/ADDED NEEDS, (Continued):			
Title II			
Professional Salaries	\$ 45,405	\$ 45,405	\$ -
Insurance Benefits	18,746	18,746	-
FICA	9,359	9,359	-
Purchased Services	-	-	-
Total Added Needs	<u>1,012,916</u>	<u>1,012,181</u>	<u>735</u>
TOTAL INSTRUCTION	<u>3,669,374</u>	<u>3,652,979</u>	<u>16,395</u>
SUPPORTING SERVICES:			
SPSR Grant			
Professional Salaries	5,638	5,638	-
Non-Professional Salaries	279	279	-
FICA	1,442	1,442	-
Purchased Services	<u>4,222</u>	<u>4,222</u>	<u>-</u>
Total SPSR Grant	<u>11,581</u>	<u>11,581</u>	<u>-</u>
GUIDANCE SERVICES:			
Professional Salaries	-	-	-
Non-Professional Salaries	12,596	12,596	-
Insurance Benefits	3,809	3,809	-
FICA	3,084	3,084	-
Supplies	<u>-</u>	<u>-</u>	<u>-</u>
Total Guidance Services	<u>19,489</u>	<u>19,489</u>	<u>-</u>
HEALTH SERVICES:			
Non-Professional Salaries	13,312	13,312	-
FICA	<u>3,252</u>	<u>3,252</u>	<u>-</u>
Total Health Services	<u>16,564</u>	<u>16,564</u>	<u>-</u>
IMPROVEMENT OF INSTRUCTION			
Non-Professional Salaries	<u>1,260</u>	<u>1,260</u>	<u>-</u>
Total Improvement of Instruction	<u>1,260</u>	<u>1,260</u>	<u>-</u>
MEDIA SERVICES:			
Purchased Services	<u>6,000</u>	<u>6,000</u>	<u>-</u>
Total Media Services	<u>6,000</u>	<u>6,000</u>	<u>-</u>

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2008

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
SCHOOL ADMINISTRATION:			
Professional Salaries	\$ 181,422	\$ 187,422	\$ (6,000)
Non-Professional Salaries	63,308	63,308	-
Insurance Benefits	21,412	21,412	-
FICA	56,362	56,362	-
Purchased Services	146,859	146,859	-
Supplies	2,951	2,951	-
Capital Outlay	-	-	-
Miscellaneous Other Expenses	853	853	-
Total School Administration	<u>473,167</u>	<u>479,167</u>	<u>(6,000)</u>
BOARD OF EDUCATION:			
Professional Salaries	6,920	6,920	-
Purchased Services	29,538	27,263	2,275
Supplies	5,313	5,313	-
Miscellaneous Other Expenses	28,338	28,338	-
Total Board of Education	<u>70,109</u>	<u>67,834</u>	<u>2,275</u>
EXECUTIVE ADMINISTRATION			
Professional Salaries	147,993	147,993	-
Non-Professional Salaries	-	-	-
Insurance Benefits	15,164	15,164	-
FICA	32,110	82,110	(50,000)
Purchased Services	62,089	62,089	-
Supplies	28,233	28,233	-
Capital Outlay	67,517	67,100	417
RUSDLT Capital Outlay	30,305	30,305	-
Miscellaneous Other Expenses	5,501	5,501	-
Total Executive Administration	<u>388,912</u>	<u>438,495</u>	<u>(49,583)</u>
FISCAL SERVICES:			
Non-Professional Salaries	19,187	19,187	-
Insurance Benefits	-	-	-
FICA	3,084	3,084	-
Unemployment	-	-	-
Purchased Services	54,334	54,334	-
Supplies	293	293	-
Miscellaneous Other Expenses	1,697	1,697	-
Total Fiscal Services	<u>78,595</u>	<u>78,595</u>	<u>-</u>

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2008

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
OPERATION & MAINTENANCE:			
Non-Professional Salaries	\$ 92,035	\$ 92,035	\$ -
Insurance Benefits	54,902	54,902	-
FICA	24,140	24,140	-
Purchased Services	423,470	371,932	51,538
Supplies	16,399	16,399	-
Capital Outlay	6,876	6,876	-
Total Operation & Maintenance	<u>617,822</u>	<u>566,284</u>	<u>51,538</u>
PUPIL TRANSPORTATION:			
Non-Professional Salaries	156,222	156,222	-
Insurance Benefits	34,333	34,333	-
FICA	36,882	36,882	-
Purchased Services	11,812	11,812	-
Supplies	63,378	63,128	250
Capital Outlay	35,000	35,000	-
Miscellaneous	-	-	-
Total Pupil Transportation	<u>337,627</u>	<u>337,377</u>	<u>250</u>
OTHER BUSINESS SERVICES:			
Insurance Benefits	-	-	-
FICA	-	-	-
Purchased Services	31,608	32,921	(1,313)
Miscellaneous Other Expenses	-	-	-
Total Other Business Services	<u>31,608</u>	<u>32,921</u>	<u>(1,313)</u>
TOTAL SUPPORTING SERVICES	<u>2,052,734</u>	<u>2,055,567</u>	<u>(2,833)</u>
COMMUNITY SERVICE			
Drivers Education	-	-	-
TOTAL COMMUNITY SERVICE			
TOTAL EXPENDITURES	<u>5,722,108</u>	<u>5,708,546</u>	<u>13,562</u>
OUTGOING TRANSFERS AND OTHER:			
Other transfers	185,500	185,500	-
Contingency Fund	-	-	-
TOTAL OUTGOING TRANSFERS AND OTHER	<u>185,500</u>	<u>185,500</u>	<u>-</u>
TOTAL EXPENDITURES AND TRANSFERS	<u>\$ 5,907,608</u>	<u>\$ 5,894,046</u>	<u>\$ 13,562</u>

HARBOR BEACH COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
June 30, 2008

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash	\$ 2,982	\$ 125,827	\$ 128,809
Due from other governmental units	-		-
Due from other funds	<u>36,002</u>	<u>-</u>	<u>36,002</u>
<u>TOTAL ASSETS</u>	<u>\$ 38,984</u>	<u>\$ 125,827</u>	<u>\$ 164,811</u>
 <u>LIABILITIES & FUND EQUITY</u>			
LIABILITIES:			
Accounts payable	\$ -	\$ 676	\$ 676
Salaries payable	-	-	-
Due to other funds	-	51,578	51,578
Accrued Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>-</u>	<u>52,254</u>	<u>52,254</u>
 FUND EQUITY:			
Fund Balance	<u>38,984</u>	<u>73,573</u>	<u>112,557</u>
TOTAL FUND BALANCE	<u>38,984</u>	<u>73,573</u>	<u>112,557</u>
<u>TOTAL LIABILITIES & FUND BALANCE</u>	<u>\$ 38,984</u>	<u>\$ 125,827</u>	<u>\$ 164,811</u>

HARBOR BEACH COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2008

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTAL</u>
REVENUES:			
Local sources:			
Admissions		\$ 25,422	\$ 25,422
Meals	\$ 72,093		72,093
A la carte	6,766		6,766
Vending machines	1,465		1,465
Miscellaneous		-	-
Interest	111		111
Total local sources	<u>80,435</u>	<u>25,422</u>	<u>105,857</u>
State sources - State Aid	<u>13,978</u>		<u>13,978</u>
Federal sources:			
National School Lunch program	144,022		144,022
USDA Commodities	19,037		19,037
Total federal sources	<u>163,059</u>	<u>-</u>	<u>163,059</u>
TOTAL REVENUES	<u>257,472</u>	<u>25,422</u>	<u>282,894</u>
EXPENDITURES:			
Professional Salaries		75,428	75,428
Non-Professional Salaries	74,958	11,544	86,502
Insurance Benefits	1,252		1,252
FICA	17,412	20,470	37,882
Purchased Services	6,831	35,289	42,120
Supplies	165,757	3,119	168,876
Capital Outlay	-	4,773	4,773
Miscellaneous Other Expenses	777	2,690	3,467
TOTAL EXPENDITURES	<u>266,987</u>	<u>153,313</u>	<u>420,300</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(9,515)</u>	<u>(127,891)</u>	<u>(137,406)</u>
OTHER FINANCING SOURCES (USES):			
Fund transfers in	46,000	139,500	185,500
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	<u>36,485</u>	<u>11,609</u>	<u>48,094</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>2,499</u>	<u>61,964</u>	<u>64,463</u>
FUND BALANCE AT END OF YEAR	<u>\$ 38,984</u>	<u>\$ 73,573</u>	<u>\$ 112,557</u>

HARBOR BEACH COMMUNITY SCHOOLS
FOOD SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
REVENUES:			
Local sources:			
Meals	\$ 60,420	\$ 72,093	\$ 11,673
A la carte	9,680	6,766	(2,914)
Vending machines	675	1,465	790
Interest	3,500	111	(3,389)
Total local sources	<u>74,275</u>	<u>80,435</u>	<u>6,160</u>
State sources-State Aid	<u>13,500</u>	<u>13,978</u>	<u>478</u>
Federal sources:			
National School Lunch program	138,000	144,022	6,022
USDA Commodities	10,640	19,037	8,397
Total federal sources	<u>148,640</u>	<u>163,059</u>	<u>14,419</u>
TOTAL REVENUES	<u>236,415</u>	<u>257,472</u>	<u>21,057</u>
EXPENDITURES:			
Non-Professional Salaries	80,000	74,958	5,042
Insurance Benefits	21,275	1,252	20,023
FICA	19,192	17,412	1,780
Purchased Services	36,125	6,831	29,294
Supplies	132,155	165,757	(33,602)
Capital Outlay	2,100	-	2,100
Miscellaneous Other Expenses	<u>-</u>	<u>777</u>	<u>(777)</u>
TOTAL EXPENDITURES	<u>290,847</u>	<u>266,987</u>	<u>23,860</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(54,432)</u>	<u>(9,515)</u>	<u>44,917</u>
OTHER FINANCING SOURCES (USES):			
Fund transfers in	<u>54,432</u>	<u>46,000</u>	<u>(8,432)</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	<u>-</u>	<u>36,485</u>	<u>36,485</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>2,499</u>	<u>2,499</u>	
FUND BALANCE AT END OF YEAR	<u>\$ 2,499</u>	<u>\$ 38,984</u>	<u>\$ 36,485</u>

HARBOR BEACH COMMUNITY SCHOOLS
ATHLETIC FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
REVENUES:			
Admissions	\$ 30,000	\$ 25,422	\$ (4,578)
Donation	-	-	-
TOTAL REVENUES	<u>30,000</u>	<u>25,422</u>	<u>(4,578)</u>
EXPENDITURES:			
Professional Salaries	80,000	75,428	4,572
Non-Professional Salaries	14,655	11,544	3,111
FICA	22,707	20,470	2,237
Purchased Services	37,055	35,289	1,766
Supplies	4,955	3,119	1,836
Capital Outlay	6,378	4,773	1,605
Miscellaneous Other Expenses	3,750	2,690	1,060
TOTAL EXPENDITURES	<u>169,500</u>	<u>153,313</u>	<u>16,187</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(139,500)</u>	<u>(127,891)</u>	<u>11,609</u>
OTHER FINANCING SOURCES (USES):			
Fund transfers in	139,500	139,500	-
EXCESS REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	<u>-</u>	<u>11,609</u>	<u>11,609</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>61,964</u>	<u>61,964</u>	
FUND BALANCE AT END OF YEAR	<u>\$ 61,964</u>	<u>\$ 73,573</u>	<u>\$ 11,609</u>

HARBOR BEACH COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
June 30, 2008

	<u>2001 SCHOOL BUILDING AND SITE BONDS</u>	<u>2005 REFUNDED BONDS</u>	<u>DURANT BONDS</u>	<u>TOTAL 2008</u>
<u>ASSETS</u>				
Cash and investments	<u>\$ 79,026</u>	<u>\$ 364,070</u>	<u>\$ -</u>	<u>\$ 443,096</u>
	<u><u>\$ 79,026</u></u>	<u><u>\$ 364,070</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 443,096</u></u>
<u>FUND BALANCES</u>				
Fund balances	<u><u>\$ 79,026</u></u>	<u><u>\$ 364,070</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 443,096</u></u>

HARBOR BEACH COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2008

	<u>2001 SCHOOL BUILDING AND SITE BONDS</u>	<u>2005 REFUNDED BONDS</u>	<u>DURANT BONDS</u>	<u>TOTAL 2008</u>
REVENUES:				
Local Sources:				
Property taxes	\$ 409,225	\$ 501,601	-	\$ 910,826
Interest	1,528	7,816		9,344
Total Local Sources	<u>410,753</u>	<u>509,417</u>	<u>-</u>	<u>920,170</u>
State sources			\$ -	-
TOTAL REVENUES	<u>410,753</u>	<u>509,417</u>	<u>-</u>	<u>920,170</u>
EXPENDITURES:				
Debt Service:				
Principal repayment	325,000	40,000	-	365,000
Interest and other fiscal charges	59,263	414,414	-	473,677
TOTAL EXPENDITURES	<u>384,263</u>	<u>454,414</u>	<u>-</u>	<u>838,677</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>26,490</u>	<u>55,003</u>	<u>-</u>	<u>81,493</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	-		-
Operating transfers out	-			-
TOTAL OTHER FINANCING SOURCES (USES):	-	-	-	-
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	<u>26,490</u>	<u>55,003</u>	<u>-</u>	<u>81,493</u>
FUND BALANCES:				
Beginning of Year	<u>52,536</u>	<u>309,067</u>	<u>-</u>	<u>361,603</u>
End of Year	<u>\$ 79,026</u>	<u>\$ 364,070</u>	<u>\$ -</u>	<u>\$ 443,096</u>

HARBOR BEACH COMMUNITY SCHOOLS
AGENCY FUND - STUDENT ACTIVITIES
SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2008

	<u>BALANCE AT</u> <u>6/30/2007</u>	<u>REVENUES</u>	<u>EXPENDITURES</u>	<u>BALANCE AT</u> <u>6/30/2008</u>
Advanced Placement - English	\$ 1,052			\$ 900
Art Design	1,586			1,733
Athletic Tournament	11,251			11,508
Band	7,640			5,039
Baseball Fund	233			233
Bowling Club	-			132
Business Fund	19			19
Cheerleaders	198			198
Class of '03	656			656
Class of '06	1,126			1,126
Class of '07	816			816
Class of '08	2,117			92
Class of '09	1,832			1,188
Class of '10	506			1,283
Class of '11	-			1,489
Coke Fund	(1,639)			(256)
Computer Club	1,515			1,515
Computerized Sign	590			590
Cross Country	1,028			77
Dance Team	-			(403)
Dow Science & English Scholarship	-			2,000
Elementary Musical	(22)			(22)
Elementary Student Council	70			70
Elementary School Activity	4,275			4,117
Flower Fund	54			94
Fitness Center	1,795			2,595
Football	-			(1,026)
Future Farmers of America	5,954			6,969
Future Homemakers of America	282			282
Girls Soccer Club	1,084			1,919
Girls Varsity Basketball	809			1,106
Greenfield Village Trip	2,803			-
Greenhouse	525			525
HBAA & HBHS Scholarship	6,441			5,967
HB PTO	5,666			14,229
High School Band Trip	211			3,253
High School Play Fund	1,006			1,006
Home Liaison Fund	6,206			3,794
Huron Jr Honors Band	2,056			2,610
James Popilek Fund	1,200			1,200
Library Fund	87			1,363
Mary Bryson Award	-			500

(Continued)

HARBOR BEACH COMMUNITY SCHOOLS
AGENCY FUND - STUDENT ACTIVITIES
SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2008

(Continued)	<u>BALANCE AT</u> <u>6/30/2007</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE AT</u> <u>6/30/2008</u>
Melissa Nowiski Scholarship	\$ -			\$ 500
Michigan Youth in Government	137			137
Middle School Projects	3,056			4,778
MS Football	1,297			1,366
MS Volleyball	1,971			1,440
Mural Fund	1,019			1,019
National Honor Society	878			966
Newspaper Fund	113			113
Patio Landscaping	668			668
Physical Education	176			176
Pop Fund	307			307
Resource Room Club	5			5
Ruthann Woodland Elementary Library	186			186
Saturday Fun Nights	92			92
School Activity fund	(254)			48
Science Telescope Project	700			700
Soccer	16			16
Softball	231			223
St Clair Co Comm College	2,046			3,306
Staff Fund	206			206
Student Council	316			164
Student Parking	177			177
Student Supplies Shop	13			13
Technology Fund	146			146
Track club	2,084			2,201
Tractor Pull	3,649			-
Volleyball	3,371			3,029
Wal-Mart Teacher of the Year	1,000			(55)
Weightlifting Club	357			55
Yearbook	(1,014)			(3,209)
Interest income	-			-
TOTALS	<u><u>\$ 93,977</u></u>	<u><u>\$ 194,285</u></u>	<u><u>\$ 189,003</u></u>	<u><u>\$ 99,259</u></u>

HARBOR BEACH COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
1998 (DURANT) BONDS
June 30, 2008

An annual appropriation to be made by the State of Michigan is the only revenue source for making the annual debt service payment on the bonds. If the legislature fails to appropriate funds, the district is under no obligation for payment.

PRINCIPAL DUE MAY 15		RATE	INTEREST DUE MAY 15		DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
					JUNE 30	AMOUNT
\$	3,601	4.761%	\$	943	2009	\$ 4,544
	3,773	4.761%		771	2010	4,544
	3,952	4.761%		592	2011	4,544
	22,544	4.761%		7,986	2012	30,530
	4,337	4.761%		207	2013	4,544
\$	38,207		\$	10,499		\$ 48,706

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

HARBOR BEACH COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
2001 SCHOOL BUILDING AND SITE BONDS
June 30, 2008

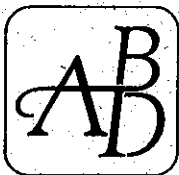
The bond issue dated July 12, 2001 was for the purpose of erecting, equipping and furnishing additions to and remodeling, equipping, reequipping, furnishing and refurnishing the existing middle school and high school facility to provide a PreK-12 facility. During 2005, the District refinanced these bonds in the amount of \$9,345,000.

PRINCIPAL DUE	RATE	INTEREST DUE	DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
			DATE	AMOUNT
\$ 340,000	4.200%	\$ 22,913	11/1/2008	\$ 22,913
		22,913	5/1/2009	362,913
355,000	4.300%	15,773	11/1/2009	15,773
		15,773	5/1/2010	370,773
370,000	4.400%	8,140	11/1/2010	8,140
		8,136	5/1/2011	378,136
<u>\$ 1,065,000</u>		<u>\$ 93,648</u>		<u>\$ 1,158,648</u>

HARBOR BEACH COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
2005 REFUNDING BONDS
June 30, 2008

The 2005 Refunding Bonds will replace the bond issue dated July 12, 2001.

<u>PRINCIPAL DUE</u>	<u>RATE</u>	<u>INTEREST DUE</u>	<u>DEBT SERVICE REQUIREMENT FOR FISCAL YEAR</u>	
			<u>DATE</u>	<u>AMOUNT</u>
		\$ 206,488	11/1/2008	\$ 206,488
\$ 40,000	3.000%	206,488	5/1/2009	246,488
		205,888	11/1/2009	205,888
40,000	3.100%	205,888	5/1/2010	245,888
		205,268	11/1/2010	205,268
40,000	3.250%	205,268	5/1/2011	245,268
		204,618	11/1/2011	204,618
430,000	4.000%	204,618	5/1/2012	634,618
		196,018	11/1/2012	196,018
450,000	4.000%	196,018	5/1/2013	646,018
		187,018	11/1/2013	187,018
470,000	4.250%	187,018	5/1/2014	657,018
		177,030	11/1/2014	177,030
490,000	4.000%	177,030	5/1/2015	667,030
		167,230	11/1/2015	167,230
510,000	4.250%	167,230	5/1/2016	677,230
		156,393	11/1/2016	156,393
530,000	4.250%	156,393	5/1/2017	686,393
		145,130	11/1/2017	145,130
555,000	4.250%	145,130	5/1/2018	700,130
		133,336	11/1/2018	133,336
575,000	4.250%	133,336	5/1/2019	708,336
		121,118	11/1/2019	121,118
600,000	4.250%	121,118	5/1/2020	721,118
		108,368	11/1/2020	108,368
630,000	4.250%	108,368	5/1/2021	738,368
		94,980	11/1/2021	94,980
655,000	4.250%	94,980	5/1/2022	749,980
		81,061	11/1/2022	81,061
685,000	4.250%	81,061	5/1/2023	766,061
		66,505	11/1/2023	66,505
715,000	4.250%	66,505	5/1/2024	781,505
		51,311	11/1/2024	51,311
745,000	4.300%	51,311	5/1/2025	796,311
		35,294	11/1/2025	35,294
780,000	4.400%	35,294	5/1/2026	815,294
		18,134	11/1/2026	18,134
815,000	4.450%	18,123	5/1/2027	833,123
<u>\$ 9,755,000</u>		<u>\$ 5,122,365</u>		<u>\$ 14,877,365</u>



ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants

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Thomas B. Doran, CPA
Valerie J. Hartel, CPA
Terry L. Haske, CPA
Jamie L. Peasley, CPA
Timothy Franzel

Robert L. Tuckey, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

September 10, 2008

To the Board of Education
Harbor Beach School District
Harbor Beach, MI 48441

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harbor Beach District Schools' basic financial statements and have issued our report thereon dated September 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harbor Beach District Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies that we considered to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement in the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting.

We consider the deficiency described as 2008-1 and 2008-2 in the accompanying schedule of findings and responses to be significant in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material misstatement of the financial statements will not be presented or detected by the entity's internal control.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harbor Beach District Schools' financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Harbor Beach District Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and response. We did not audit Harbor Beach District Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of education, management, U.S. Department of Education, Michigan Department of Education and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

September 10, 2008

To the Board of Education
Harbor Beach School District
Harbor Beach, MI 48441

Schedule of Finding and Responses

Findings considered material weaknesses

Finding 2008-1

Criteria:

Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Condition:

After considering the qualifications of the accounting personnel of Harbor Beach Schools, we believe that the personnel have the abilities to maintain the day-to-day bookkeeping of the School District, but they do not have the qualifications and abilities to generate financial statements, including required footnotes, in accordance with accounting principles generally accepted in the United States of America.

Cause:

The staff of the district does not understand all information included in the annual financial statements; however, we assist in preparing the financial statements and related footnotes.

Effect:

We assist management with the external financial reporting responsibility to ensure their financial statements are accurate.

Recommendation:

We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a material weakness as defined in Statement on Auditing Standards #112.

Client Response:

We are aware of this deficiency and we are in the process of transitioning some of our accounting to the Huron Intermediate School District. We would expect this situation to be corrected within 12 to 24 months. In the interim, we will continue to use our external auditors for this technical assistance.

September 10, 2008

To the Board of Education
Harbor Beach School District
Harbor Beach, MI 48441

Schedule of Finding and Responses

Findings considered significant deficiencies

Finding 2008-2

Criteria:

Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client has a small staff that limits the segregation of duties.

Condition:

Due to the limited number of staff, many critical duties are combined and given to the available staff and/or board members.

Context:

Internal controls are weakened due to the lack of segregation of duties.

Effect:

Other staff members and/or board members must be utilized in order to achieve good internal controls.

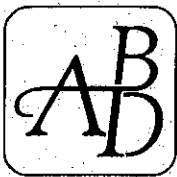
Cause:

The district doesn't have enough staff in the business office to have a proper segregation of duties.

Recommendation:

At this time, we recommend the district segregate the duties whenever possible and communicate this as required by professional standards. The correct process meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

c



ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

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.....
Robert L. Tuckey, CPA

September 10, 2008

To the Members of the Board
Harbor Beach Community Schools

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Harbor Beach Community Schools for the year ended June 30, 2008, and have issued our report thereon dated September 10, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 8, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the internal control of Harbor Beach Community Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Harbor Beach Community Schools' compliance with certain provisions of laws, regulations, contracts, and grants. However the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 8, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Harbor Beach Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We did not identify any significant estimates affecting the financial statements for the current year.

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The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. We did not identify any significant disclosures.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 10, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Members of the Board and management of the Harbor Beach Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Anderson, Tuckey, Bernhardt, & Doran, P.C.
Certified Public Accountants